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Message Text

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C O N F I D E N T I A L MOSCOW 7476

E.O. 11652: GDS
TAGS: ECON UR
SUBJECT: STATUS OF SOVIET INDUSTRIAL REORGANIZATION

REF: A) MOSCOW A-147 (4/30/74); B) MOSCOW 12544 (8/15/74)

1. SUMMARY: WORK IS PROCEEDING APACE ON RESTRUCTURING SOVIET INDUSTRY INTO TWO-AND THREE-TIERED SYSTEM OF MANAGEMENT (PRODUCTION ASSOCIATIONS, INDUSTRIAL ASSOCIATIONS, CENTRAL MINISTRIES), ACCORDING TO LENGTHY ARTICLE IN MAY 28 SOTSIALISTICHESKAYA INDUSTRIYA. "GENERAL PLANS" FOR SECTOR REORGANIZATION HAVE BEEN PREPARED BY VIRTUALLY ALL INDUSTRIAL MINISTRIES; UNFORTUANTELY, MANY OF THESE REFLECT EFFORTS BY CERTAIN MINISTRIES TO MAINTAIN STATUS QUO. ARTICLE ADVOCATES WIDE INTRODUCTION OF CROSS-INDUSTRY PRODUCTION ASSOCIATIONS. MIDDLE LINK IN INDUSTRIAL MANAGEMENT (INDUSTRIAL ASSOCIATION) IS ONLY TEMPORARY MEASURE; EVENTUALLY ALMOST ALL INDUSTRIAL ASSOCIATIONS WILL BE TRANSFORMED INTO ONE OR SEVERAL PRODUCTION ASSOCIATIONS. GENERAL PLANS FOR REORGANIZATION PREPARED BY CERTAIN MINISTRIES CONTAIN PROPOSALS FOR EXPANSION OF MINISTERIAL AUTONOMY, PARTICULARLY IN AREA
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OF PLANNING. THESE PROPOSALS DESERVE WIDE ATTENTION,

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ACCORDING TO ARTICLE, SO THAT "TRANSFER TO NEW SYSTEM OF PLANNING AND FINANCING" CAN BEGIN IN 1976 WITH INAUGURATION OF TENTH FIVE YEAR PLAN. END SUMMARY

2. IN ARTICLE ENTITLED "GENERAL PLANS FOR THE SECTORS," SOTSIALISTICHESKAYA INDUSTRIYA'S "ECONOMIC OBSERVER" V. SELYUNIN CLAIMS THAT WORK IS PROGRESSING RAPIDLY ON RESTRUCTURING SOVIET INDUSTRY INTO TWO-AND THREE-TIER MANAGEMENT SET-UP ENVISAGED IN MARCH 1973 DECREE OF CPSU CC AND COUNCIL OF MINISTERS. VIRTUALLY ALL INDUSTRIAL MINISTRIES HAVE DRWAN UP AND SUBMITTED TO COUNCIL OF MINISTERS FOR APPROVAL "GENERAL PLANS" TO CARRY OUT REORGANIZATION WITHIN EACH SECTOR. EIGHT OF THESE HAVE ALREADY BEEN APPROVED; ANOTHER 25 ARE AWAITING FINAL CONFIRMATION. AS STATED ELSEWHERE IN SOVIET PRESS RECENTLY, SELYUNIN INDICATES THAT BY END OF 1975 25 PERCENT OF ALL SOVIET INDUSTRIAL ENTERPRISES WILL BE ORGANIZED INTO PRODUCTION ASSOCIATIONS.

3. AT SAME TIME, NOTES SELYUNIN, MANY MINISTRIES HAVE PREPARED UNSATISFACTORY REORGANIZATION PROPOSALS. SOME HAVE ENVISAGED CREATION OF PRODUCTION ASSOCIATIONS COMPRISING TOO FEW WORKERS TO BE ECONOMICALLY VIABLE. OF TOTAL NUMBER OF PRODUCTION ASSOCIATIONS PROPOSED BY MINISTRY OF FOOD INDUSTRY, FOR EXAMPLE, 172 WOULD HAVE ONE THOUSAND OR LESS WORKERS. OTHER MINISTRIRES IN THEIR DRAFT PLANS HAVE PROVIDED FOR ONLY "INSIGNIFICANT DECREASE" IN NUMBER OF INDEPENDENT ENTERPRISES. THIS, OF COURSE, IS ALSO UNACCEPTABLE. STILL OTHER MINISTRIES ARE ATTEMPTING TO RETAIN THEIR MAIN PRODUCTION ADMINISTRATIONS (GLAVKS) UNDER "PSEUDONYM" OF INDUSTRIAL ASSOCIATIONS. SUCH ATTEMPTS CANNOT BE PERMITTED, CONTINUES SELYUNIN, SINCE ELIMINATION OF NON-PRODUCTIVE GLAVKS AND THEIR REPLACEMENT BY FINANCIALLY-INDEPENDENT INDUSTRIAL ASSCOATIONS WAS "KEY FEATURE" IN PROGRAM TO IMPROVE PERFORMANCE BY MINISTRIES.

4. REGARDING CROSS-SECTOR PRODUCTION ASSOCIATIONS (FIRST RUMORED OVER YEAR AGO--SEE REF A), SELYUNIN MENTIONS ALMOST NONCHALANTLY THAT "ACCORDING TO BOTH SPIRIT AND LETTER" OF INSTRUCTIONS ISSUED BY COUNCIL OF MINISTERS ON ESTABLISH-
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MENT OF PRODUCTION ASSOCIATIONS THE MINISTERIAL SUBORDINA-TION OF ENTERPRISES "SHOULD NOT SERVE AS HINDRANCE TO THEIR BEING INCLUDED" IN PRODUCTION ASSOCIATIONS OF OTHER MINISTERIES. (COMMENT: PUBLIC DISCUSSION OF INTER-SECTOR ASSOCIATION CONCEPT IS INCREASING, BUT MOST STATEMENTS ARE EXTREMELY CAUTIOUS AND OBLIQUE. LEADER IN MAY ISSUE OF PLANOVOYE KHOZYAYSTVO, FOR EXAMPLE, NOTES "PROCESS OF COMBINING AND CREATING INTER-LINKED (PRODUCTION) COMPLEXES

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THROUGH ORGANIZING WITHIN MINISTRIES AND TRANSFERRING FROM OTHER MINISTRIES SPECIALIZED FACTORIES OF PRODUCTION UNITS TO SATISFY THE REQUIREMENTS OF A GIVEN MINISTRY." END COMMENT)

5. SELYUNIN REFERS IN ARTICLE TO JUDGMENT BY "LEADING MANAGEMENT SPECIALIST" G. POPOV THAT CREATION OF INDUSTRIAL ASSOCIATIONS (THE MIDDLE LINK IN NEW INDUSTRIAL MANAGEMENT SCHEME) IS ONLY TEMPORARY MEASURE. IN FUTURE, HE SAYS THESE SHOULD BE TRANSFORMED EITHER INTO ONE OR SEVERAL PRODUCTON ASSOCIATONS, ULTIMATELY RESULTING IN DIRECT SUPERVISION BY MINISTRIES OF THEIR SUBORDINATE MANUFACTURING ENTITIES. HARBINGERS OF THIS FINAL STEP ARE GENERAL PLANS WORKED OUT BY COAL AND PETROLEUM INDUSTRY MINISTRIESS, IN WHICH INDUSTRIAL ASSOCIATIONS HAVE ALREADY BEEN ELIMINATED.

6. SELYUNIN ARTICLE CONCLUDES WITH SHORT OBSERVATION THAT MINISTRIES OF MACHINE TOOL AND TOOL BUILDING INDUSTRY, FERROUS METALLURGY, PETROLEUM INDUSTRY, AND CHEMICAL INDUSTRY HAVE PROPOSED WITHIN FRAMEWORK OF THEIR GENERAL REORGANIZATION PLANS AN EXPANSION OF MINISTERIAL RIGHTS, PARTICULARLY IN AREA OF PLANNING. THESE PROPOSALS, SAYS SELYUNIN, ESSENTIALLY ARE REPETITION OF PROGRAMS ALREADY BEING UNDERTAKEN ON EXPERIMENTAL BASIS BY MINISTRY OF INSTRUMENT MAKING (SEE REF B), MINISTRY OF ELECTRO-TECHNICAL INDUSTRY, AND MAIN ADMINISTRATION OF AUTOMOTIVE TRANSPORT (GLAVMOSAVTOTRANS) OF MOSCOW CITY SOVIET. SELYUNIN CLAIMS THAT "IT IS TIME TO FULLY EXCHANGE EXPERIENCES" ON THESE PROPOSALS, IN ORDER TO INTRODUCE "NEW SYSTEM OF PLANNING AND FINANCING" WITH TENTH FIVE YEAR PLAN.

7. COMMENT: WHAT EMERGES FROM SELYUNIN ARTICLE AND OTHER CONFIDENTIAL

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SOURCES IS PICTURE OF NEW SOVIET INDUSTRIAL MANAGMENT POLICY WHICH ENCOMPASSES AT MINIMUM ALL OF FOLLOWING ELEMENTS:

-- AT PRIMARY LEVEL COMBINATION OF VIRTUALLY ALL INDUSTRIAL ENTERPRISES INTO PRODUCTION ASSOCIATIONS TO ASSURE MORE RATIONAL OPERATION, AVOID DUPLICATION OF EFFORT, ACHIEVE ECONOMY OF SCALE, AND ASSURE FINANCIAL INTEGRITY OF ALL PRODUCTION UNITS;

-- ESTABLISHMENT OF (PERHAPS ARBITRARY) MINIMUM SIZE FOR PRODUCTION ASSOCIATIONS AT NOT LESS THAN ONE THOUSAND WORKERS;

-- USE OF INTERMEDIARY INDUSTRIAL ASSOCIATIONS AS

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TEMPORARY MANAGEMENT TOOL IN ORGANIZING AND CONTROLLING
OPERATION OF PRODUCTION ASSOCIATIONS UNTIL LATTER HAVE
BECOME SOLIDLY ESTABLISHED AND CAN OPERATE EFFICIENTLY
WITHOUT THREAT OF DISINTEGRATION;

-- ENCOURAGEMENT OF INTER-SECTOR PRODUCTION ASSOCIA-
TIONS, SUBORDINATE ULTIMATELY TO ONE "PRIME USER" MINISTRY
TO ACHIEVE BETTER HORIZONTAL COOPERATION THROUGHOUT
ECONOMY, PARTICULARLY IN AREA OF MATERIAL-TECHNICAL SUPPLY;

-- ACHIEVEMENT OF INDUSTRIAL SPECIALIZATION THROUGH
CREATION OF NEW INDUSTRIAL MINISTRIES AND SPLITTING UP
CERTAIN EXISTING ONES;

-- PROVIDING INCREASED AUTONOMY FOR INDUSTRIAL
MINISTRIES IN AREAS OF PLANNING AND FINANCE, APPARENTLY
TO BE FORMALIZED WITHIN TENTH FIVE YEAR PLAN DOCUMENT.
REGARDING PLANNING, MINISTRIES WILL APPARENTLY BE GIVEN
REAL AUTHORITY TO FORMULATE AND EXECUTE ANNUAL PLANS,
SUBJECT TO LONGER-TERM, POLICY-ORIENTED DIRECTIVES SET
OUT BY GOSPLAN, WHOSE ROLE OF BENEVOLENT SUPER-MINISTRY
WILL BE ENHANCED. CONCERNING FINANCE, MINISTRIES WOULD
ENJOY VIRTUAL INDEPENDENCE FROM STATE BUDGET, RESPONSIBLE
FOR DEFICITS IN OBLIGATORY TRANSFERS TO BUDGET DUE TO
UNDERFULFILLMENT OF PLANNED PROFITS BUT ALLOWED TO RETAIN
SURPLUSES FOR OWN USE.
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